Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 783 (Substitute S-1 as reported)
Senate Bill 784 (Substitute S-1 as reported)
Sponsor: Senator Jon Bumstead
Committee: Finance

CONTENT

Senate Bill 783 (S-1) would amend the Income Tax Act to do the following:

-- Specify that a provision allowing a taxpayer to claim against the individual income tax liability a credit for the property taxes on his or her homestead would not apply to a disabled veteran or a widow or widower of a disabled veteran who claimed the homestead income tax credit under the bill.
-- Allow, beginning with the 2023 tax year, a disabled veteran or his or her widow or widower to claim a credit against his or her income tax in an amount equal to 100% of the property tax levied on his or homestead deductible for Federal income tax purposes.
-- Require a claimant to claim the credit on his or her annual income tax return or by filing with the local tax collecting unit an affidavit that authorized it to claim the credit on his or her behalf.
-- Require a local tax collecting unit that received an affidavit stating a claimant's intent to claim the proposed credit to provide the Department of Treasury with a copy of the affidavit and information needed to determine the amount of property taxes levied and deferred on the homestead.
-- Specify that if the amount of the credit exceeded the claimant's tax liability, any amount not used as offset would have to be approved for payment to the claimant.
-- Specify that the credit proposed under the bill would be exempt from execution, levy, attachment, garnishment, or other legal process to collect a debt.

Senate Bill 784 (S-1) would amend the General Property Tax Act to do the following:

-- Eliminate language that exempts the homestead of a disabled veteran or his or her unremarried surviving spouse from property taxes levied under the Act.
-- Specify that a disabled veteran or his or her unremarried surviving spouse who wanted to defer collection of his or her property tax and authorize a local tax collecting unit to claim the homestead income tax credit proposed under Senate Bill 783 would have to file an affidavit with the local tax collecting unit.
-- Require a local tax collecting unit that received an affidavit to defer collecting property taxes levied on the homestead until the State paid the property taxes or rejected the claim for the credit, and to provide the Department with a copy of the affidavit and inform the Department of the amount of tax deferred.
-- Specify that property taxes deferred under the bill would not be subject to penalties or interest for the deferment period.
-- Specify that after the State's payment of property tax or rejection of the claim, the local tax collecting unit would have to notify the claimant of the payment or rejection, the amount of unpaid tax, and the date by which the balance would have to be paid.

The bills are tie-barred. Senate Bill 783 (S-1) would take effect January 1, 2023; Senate Bill 784 (S-1) would take effect December 31, 2022.

MCL 206.520 et al. (S.B. 783)
211.7b (S.B. 784)

Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bills would reduce State General Fund revenue by between $86.3 million and $103.4 million and increase School Aid Fund (SAF) revenue by approximately $10.1 million, beginning in fiscal year (FY) 2023-24. The revenue reduction to the General Fund would increase in subsequent fiscal years as both taxable values rise and the number of exemptions increase, while the increase to the School Aid Fund would increase over time only as taxable values increase. Similarly, the impact would increase or decrease, respectively, with any increase or decrease in millage rates on affected properties.

Based on the exemptions claimed in tax year 2020, the bills would be expected to reduce General Fund revenue by $56.9 million and increase SAF revenue by $9.4 million. The impact for those currently exempt would increase over time, as taxable values grow and if millage rates increased. Since the exemption was first enacted, the number of exemptions has grown rapidly, at about 14.0% per year. The number of Michigan veterans paid at a disability rating of 100% increased at an average rate of 9.0% per year between 2015 and 2018. Assuming millage rates remain unchanged, that taxable values increase by an average of 2.5% per year, and the growth rate in new claims will be between 9% and 14% per year, the bills would decrease General Fund revenue by between $86.3 million and $103.4 million in FY 2023-24, and between $95.9 million and $120.2 million in 2024-25. The bills also would increase SAF by approximately $10.1 million in FY 2023-24 and $10.4 million in FY 2024-25.

The bill also would have a negative fiscal impact on the Department of Treasury. The Department likely would experience additional one-time and ongoing costs to process affidavits, remit credits directly to local tax collecting units, and provide informational materials to local tax collecting units. The Department would incur one-time costs to develop forms and the application process and to create information technology systems. The ongoing costs would include staff and information technology costs to annual process affidavits. Both the one-time and ongoing costs likely would be greater than current appropriations.

Date Completed: 3-8-22

Fiscal Analyst: Cory Savino
David Zin